

PITTWATER COUNCIL'S PROPOSED RATES STRUCTURE: SUBMISSION TO COUNCIL BY RESIDENTS AND PROPERTY OWNERS IN WHALE BEACH

Submission

This submission is a response to the options described for *Rates Structures in Pittwater Shire* in its 2007-2012 Draft Management Plan and 2007-2008 Budget.

It is clear that, with the latest land valuations determined by the Valuer General, under the existing Rates Structure, residents in Whale Beach would clearly be discriminated against, and on this basis the present submission is being made.

The undersigned have the endorsement of residents in Rayner Road, Whale Beach, and its environs, to make this submission on their behalf.

Problem Setting

The difficulties faced by Council in establishing an appropriate rates structure have been highlighted by significant increases in land values throughout the Shire from 2003 to 2006, as determined by the Valuer General. More importantly, these increases have varied greatly for different localities within the Shire.

If the existing rates regime is maintained (rates being determined on an ad valorem basis with a minimum charge) it is apparent that serious inequities will arise in the rates that are set for 2007-2008 and beyond. Council has the power to alter the existing rates structure, but only within limitations imposed by the Local Government Act and other rules applied by State Government. Council has apparently approached State Government in the past to change some of the present arrangements but has been unsuccessful in these attempts.

As recognised by Council, the main difficulty in establishing an appropriate rates structure is that the percentage increases in land valuations for 2006 vary significantly for individual properties and for different localities within the Shire. The localities most affected are Whale Beach and Palm Beach.

The problem faced by Council is how to deal with these "spikes" in land values for particular properties and localities without inflicting adverse financial impacts on other property owners.

Projected Rates Under the Existing Structure

According to the information provided by Council, between 2003 and 2006 the 3-year rolling average increase in land values in Whale Beach has been more than 120% while in Palm Beach the increase has exceeded 80%. By contrast, for the Shire as a whole, the increase in average land values has been 41%.

If the existing rates structure is maintained, and assuming a zero increase in total revenue from the existing level, residential rates on average in Whale Beach would increase by 58% and in Palm Beach by 31%.

Again according to the Council's own calculations, application of the existing rates structure would result in increased rates for individual properties in Whale Beach ranging up to 164% and in Palm Beach up to 212%. Similar increases would be expected in other localities – for example: Warriewood 190%; Western Foreshores 116%; and Newport 109%. Under present arrangements, in 2007-2008 the top 10% of properties by land value would pay 31% of total residential rates for the Shire as a whole.

Such increases are clearly a discriminatory and unfair imposition of the tax burden on owners of high-valued land. Note that the figures quote above refer only to *increases* in rates. As it currently stands, higher valued properties, especially in Whale Beach and Palm Beach, are already paying multiples of the average rates paid across the Shire. In other words, land owners in Whale Beach and Palm Beach are heavily cross-subsidising other land owners for the provision of Council services in the Shire.

Council Response

Council should be commended for bringing this problem to the attention of the community and for providing excellent information and analyses of the implications of the current rates regime and other options under consideration.

The public displays of the Draft Management Plan clearly describe the existing situation and the effects of three options for a future rates structure. The presentation at the Community Information Evening held at Mona Vale Memorial Hall on 9 May was conducted in a highly professional manner and also gave a clear account of the relevant problems and possible approaches to dealing with them.

Options for Rates Structure

As outlined in the information provided by Council, three options for a rates structure are under consideration:

- **Option A** – the existing system (an ad valorem rate, subject to a minimum amount)
- **Option B (1)** (Base of 25% of rate income plus ad valorem rate of 0.12895%)
- **Option B (2)** (Base of 50% of rate income plus ad valorem rate of 0.08605%)

Principles for Setting Council Rates

Council bears responsibility for designing and implementing a rates structure that meets the legislative provisions of the Local Government Act and also accords with the principles outlined in slide 7 (The Basis of Rates) and slide 8 (Levying of Rates) presented at the Community Information Evening.

Slide 7 indicates that Council is obliged to structure its rates according to property values. Rates are intended to finance public services provided by local government to “retain or enhance the value of private property (such as local roads, garbage disposal, parks, footpaths.)”

Slide 8 introduces two additional criteria, relating to the “fairness” or “appropriateness” of rates, namely:

- The extent to which those who receive the benefits of council’s services also pay for those services – the so called “**benefit principle**”.
- The extent to which those who pay for council’s services have the ability to pay for those services – the so called “**ability to pay principle**”.

It is recognised that Council faces a difficult challenge balancing the criteria to be met in establishing any kind of rates structure, largely due to the limitations imposed by existing legislation and regulations.

Application of Principles

Council Services, Benefits and Land Values

In the statement relating to “The Basis for Rates” there is a presumption that private property values are related to the public services that are provided. On this basis, presuming that the services provided by Pittwater Council are (or should be) made uniformly available to all residents in the Shire, the proportion of land value attributable to Council services should be equal for all properties, and rates designed for cost recovery should also be equal.

The significantly higher average property values in Whale Beach and Palm Beach are not a consequence of the services provided by Council to those localities in preference to other localities – they are a consequence of the unique natural features of the landscape, beaches and waterways, including wonderful views. In this respect, land values are a very poor indicator of the benefits that are provided by Council to those localities.

It is worth noting that increasingly, at all levels of Government, taxes and charges are being based on the “user pays” principle. Water charges are a good example. In the past, water rates were often based on property values. They are now being priced in terms of a base charge and the volume used, including a two-part tariff depending on how much is consumed. Council itself applies the user pays principle in charges for extra garbage collections, tip charges and parking fees for visitors to beachside locations.

According to the “user pays” principle, the main function of rates should be to cover the cost of services provided to residents by Council. If the services (hence benefits) provided by Council are much the same across the whole Shire, why should discriminatory charges be levied on residents simply because they have properties with higher land values?

Ability to Pay

The connection between land value and “ability to pay” is tenuous at best. Many of the owners of properties in Whale Beach and Palm Beach are long-term residents, some of whom purchased their properties several decades ago when average prices in Whale Beach and Palm Beach were roughly the same as those anywhere on the “North Shore”.

Retirees on pensions or on self-funded incomes will face severe financial difficulty if they are subject to discriminatory increases in rates under Option A. In some cases, they may be forced to sell their family homes and move to other localities. It will be small consolation to such residents to be told that they are “lucky” to make significant capital gains as a result of living in the area for so long if they are obliged to abandon the places where they have lived for many years and raised their families.

Those wishing to maintain the existing system may consider that residents who have high-valued properties deserve to be subject to discriminatory levels of rates. If the existing system is maintained, rates levied on properties in Whale Beach and Palm Beach (as well as other high-valued) areas within the Shire will function principally as a de facto wealth tax – not as a mechanism to cover the cost of Council services made available to those residents. In this respect, Council would function as an adjudicator on wealth taxes at the local scale. But is this a proper role for local government to play?

If the concern is with reducing inequalities in income or wealth, it should be recognised that other Government jurisdictions carry responsibilities for such policy objectives: Commonwealth Government with a progressive income tax regime, GST, capital gains tax and welfare benefits; and State Government with taxes and charges such as Land Tax and stamp duties on transfers of assets.

The rules imposed by State Government, especially the \$250 limit on concessions for pensioners, make it difficult for Council to consider measures that might alleviate potential cost burdens incurred by low-income property owners in the Shire. Certainly the impacts on lower-income residents should be factored into the design of any rates structure. But inequities of a different kind also emerge under an ad valorem system that imposes discriminatory rates on residents who happen to own land that has - from causes beyond their control - recently escalated in value.

Recommendations to Council

In summary, this submission makes the following recommendations to Council:

1. That ***Option A should be rejected*** as a basis for the rates structure, due to its inequitable effects on property owners in Whale Beach, Palm Beach and other localities that are significantly and adversely affected. It demonstrably fails to meet the criteria of fairness in relation to the benefits received from Council and the ability of property owners to pay.

2. That due to the inequities that *already exist* in rates paid by residents in Whale Beach and Palm Beach under the existing ad valorem system, adoption of ***Option B (2) should be seriously considered*** as a basis for the forthcoming rates structure.
3. That on all considerations of fairness, ***Option B (1) should be the minimum threshold for introducing a Base plus ad valorem rates structure***. Ideally, the Base should be somewhere between 25 and 50%.
4. What has happened in Pittwater Shire typifies the inequities that can arise when rates are geared inflexibly to land values. It is recommended that ***Council approach State Government*** again on this issue, using the experience of Pittwater Shire as a vehicle to ***seek reform of the existing legislation and regulations*** to achieve a system that overall is fairer; that is more in keeping with the needs of the community; and that associates rate payments more closely with service delivery.

Date: 11 May 2007

Signed

David James
13 Rayner Road
Whale Beach
NSW 2107

Peter Cowper
12 Rayner Road
Whale Beach
NSW 2107